

GRAYSON COUNTY WATER DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015

**GRAYSON COUNTY WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Grayson County Water District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Grayson County Water District, as of December 31, 2016 and 2015, and the respective changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017, on our consideration of the Grayson County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grayson County Water District's internal control over financial reporting and compliance.

Respectfully submitted,



Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2017

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	DECEMBER 31,	
	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Operation and maintenance	\$ 50,260	\$ 45,301
Revenue	196,333	250,908
Accounts receivable		
Customer accounts receivable, net of allowance		
for uncollectibles of \$130,412 and \$119,177	90,044	57,247
Accounts receivable-WRECC	139,298	44,542
Unbilled revenue	135,210	128,056
Prepaid expenses	54,440	33,721
Inventory	309,327	339,292
TOTAL CURRENT ASSETS	974,912	899,067
NON-CURRENT ASSETS		
Restricted cash and cash equivalents		
Bond and note sinking funds	1,585,690	1,433,763
Depreciation fund	1,000,792	843,569
Note receivable-City of Leitchfield	35,826	42,071
Capital assets		
Land and land rights	255,736	255,736
Construction in progress	19,116	19,116
Utility plant and lines	29,872,052	29,731,097
Utility equipment and other	808,265	783,015
Less: Accumulated depreciation	(11,959,678)	(11,125,353)
TOTAL NON-CURRENT ASSETS	21,617,799	21,983,014
TOTAL ASSETS	\$ 22,592,711	\$ 22,882,081

(CONTINUED)

	DECEMBER 31,	
	2016	2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 155,249	\$ 46,308
Accounts payable-WRECC	103,313	94,890
Accrued liabilities	663	666
School and sales taxes payable	9,684	9,245
Interest payable from restricted assets	118,225	123,517
Interest payable-Customer deposits	84	36
Customer deposits	33,850	32,850
Current portion of long-term debt	588,415	573,151
TOTAL CURRENT LIABILITIES	1,009,483	880,663
NON-CURRENT LIABILITIES		
Bonds and loans payable	8,803,867	9,377,018
Less: Current portion of long-term debt	(588,415)	(573,151)
TOTAL NON-CURRENT LIABILITIES	8,215,452	8,803,867
TOTAL LIABILITIES	9,224,935	9,684,530
NET POSITION		
Net investment in capital assets	10,191,624	10,286,593
Restricted for debt service (nonexpendable)	1,585,690	1,433,763
Restricted for depreciation reserves (nonexpendable)	1,000,792	843,569
Unrestricted	589,670	633,626
TOTAL NET POSITION	13,367,776	13,197,551
TOTAL LIABILITIES AND NET POSITION	\$ 22,592,711	\$ 22,882,081

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	DECEMBER 31,	
	2016	2015
OPERATING REVENUES		
METERED SALES		
Residential	\$ 2,646,465	\$ 2,545,563
Commercial	415,438	417,093
Agriculture	62,800	64,623
Resale	102,073	102,454
TOTAL METERED SALES	3,226,776	3,129,733
FORFEITED DISCOUNTS	51,453	53,310
MISCELLANEOUS SERVICE REVENUE	39,050	28,443
TOTAL OPERATING REVENUES	3,317,279	3,211,486
OPERATING EXPENSES		
PURCHASED WATER	372,054	365,621
SUPPLY AND PUMPING EXPENSE		
Purchased power	33,182	25,203
Materials and supplies	5,086	4,332
Insurance	7,717	8,087
Transportation	13,026	12,775
Miscellaneous	600	993
Contractual services	91,210	42,833
TOTAL SUPPLY AND PUMPING EXPENSE	150,821	94,223
WATER TREATMENT EXPENSE		
Purchased power	96,513	91,326
Materials and supplies	120,942	148,096
Insurance	8,656	8,087
Transportation	4,776	4,684
Miscellaneous	10,135	3,042
Contractual services	299,149	298,539
Professional services	14,584	13,723
TOTAL WATER TREATMENT EXPENSE	554,755	567,497
GENERAL DISTRIBUTION EXPENSE		
Purchased power	2,195	2,413
Materials and supplies	5,366	3,791
Insurance	8,656	8,087
Transportation	17,481	14,905
Miscellaneous	4,295	3,847
Contractual services	291,620	238,027
TOTAL GENERAL DISTRIBUTION EXPENSE	329,613	271,070
MAINTENANCE EXPENSE		
Transportation	1,984	1,703
Contractual services	80,933	142,777
Distribution	4,907	3,830
Services	10,449	6,412
TOTAL MAINTENANCE EXPENSE	98,273	154,722

(CONTINUED)

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION (CONCLUDED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	DECEMBER 31,	
	2016	2015
CUSTOMER ACCOUNTS EXPENSE		
Bad debt expense	\$ 11,839	\$ 19,491
Materials and supplies	34,683	35,027
Transportation	5,284	7,665
Miscellaneous	4,445	200
Contractual services	114,421	171,332
Customer records	64,656	63,237
TOTAL CUSTOMER ACCOUNTS EXPENSE	235,328	296,952
ADMINISTRATIVE AND GENERAL EXPENSE		
Materials and supplies	25,827	32,166
Insurance	8,656	8,087
Transportation	868	852
Miscellaneous	58,806	49,943
Contractual services	284,353	188,064
Professional services	19,285	13,202
TOTAL ADMINISTRATIVE AND GENERAL EXPENSE	397,795	292,314
DEPRECIATION EXPENSE	834,325	826,167
TOTAL OPERATING EXPENSES	2,972,964	2,868,566
OPERATING INCOME (LOSS)	344,315	342,920
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous income	25,665	27,248
Interest income	3,864	3,990
Line relocation revenue	0	0
Line relocation expense	0	0
Gain (loss) on sale of equipment	0	0
Interest expense	(259,450)	(272,155)
PSC taxes	(6,233)	(6,231)
TOTAL NONOPERATING REVENUES (EXPENSES)	(236,154)	(247,148)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	108,161	95,772
CAPITAL CONTRIBUTIONS		
Contributions in aid of construction	62,064	36,675
TOTAL CAPITAL CONTRIBUTIONS	62,064	36,675
CHANGE IN NET POSITION	170,225	132,447
TOTAL NET POSITION-BEGINNING	13,197,551	13,065,104
TOTAL NET POSITION-ENDING	\$ 13,367,776	\$ 13,197,551

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	DECEMBER 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,182,572	\$ 3,223,000
Payments to suppliers	(967,707)	(972,854)
Payments for contractual services	(1,044,322)	(1,170,197)
Other receipts (payments)	(4,797)	(5,211)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,165,746</u>	<u>1,074,738</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	0	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant income	0	0
Bond issuance costs	0	0
Proceeds from capital debt	0	0
Principal repayment of capital debt	(573,151)	(562,954)
Capital contributions	62,064	36,675
Purchases of capital assets	(166,205)	(378,942)
Miscellaneous income	25,665	27,248
Line relocation revenue	0	0
Line relocation expense	0	0
Insurance proceeds	0	0
Damage repairs	0	0
Gain (loss) on sale of equipment	0	0
Interest paid on capital debt	(259,450)	(272,155)
Increase (decrease) in interest payable-Customer deposits	48	(36)
Increase (decrease) in interest payable from restricted assets	(5,292)	(6,718)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(916,321)</u>	<u>(1,156,882)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,864	3,990
Decrease in note receivable-City of Leitchfield	6,245	5,977
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>10,109</u>	<u>9,967</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	259,534	(72,177)
BALANCES-BEGINNING OF YEAR	<u>2,573,541</u>	<u>2,645,718</u>
BALANCES-END OF YEAR	<u><u>\$ 2,833,075</u></u>	<u><u>\$ 2,573,541</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 344,315	\$ 342,920
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	834,325	826,167
Payment of PSC taxes	(6,233)	(6,231)
Changes in assets and liabilities:		
Net (increase) decrease in accounts receivable	(127,553)	9,570
Net (increase) decrease in unbilled revenue	(7,154)	1,944
Net (increase) decrease in prepaid expenses	(20,719)	1,364
Net (increase) decrease in inventory	29,965	(13,391)
Net increase (decrease) in accounts payable	117,364	(88,625)
Net increase (decrease) in accrued liabilities	(3)	211
Net increase (decrease) in school and sales taxes payable	439	409
Net increase (decrease) in customer deposits	1,000	400
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 1,165,746</u></u>	<u><u>\$ 1,074,738</u></u>

Accompanying notes to the financial statements are an integral part of this statement.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES

The Grayson County Water District is a tax-exempt division of county government organized under KRS 74.010. The District provides a municipal water system to citizens located in the geographic area of the system. The District has contracted with Warren Rural Electric Cooperative Corporation the following services: billings, collections, office rental, equipment rental, and related staff expenditures.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

1. The Reporting Entity

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Standards and Interpretations).

2. Basic Financial Statements – Proprietary Fund Financial Statements

The District's basic financial statements include only proprietary fund financial statements because the District engages only in a single business-type activity. Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those businesses in the private sector. Amounts recorded as operating revenues are those revenues generated from general water service operations. All other revenues are recorded as non-operating revenues or capital contributions. The District first applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Cash and Cash Equivalents

The District has defined cash and cash equivalents to include all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

5. Inventory

Inventory of materials consist of expendable supplies held for use and are stated at the lower of cost or market using the FIFO (first-in, first-out) method.

6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful life of the asset. An estimated useful life of fifty years is used for substantially all plant assets. Estimated useful lives for other machinery and equipment ranges from five to ten years. Upon retirement, the cost of the asset, less any proceeds, is charged to accumulated depreciation.

The District capitalizes construction period interest on loans that were obtained to finance construction.

The District has an ongoing activity of assessing the feasibility of installing additional lines to new service areas. Once an extension is considered feasible, there are additional engineering studies, applications to various funding agencies, and project administrative costs. The District defers the ongoing activity and capitalizes these costs upon completion of the project. These procedures are based on the reasonable expectation that the Public Service Commission of the Commonwealth of Kentucky will allow recovery of these costs through their inclusion in future rate increases.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE A – DESCRIPTION OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

8. Impairment of Long-Lived Assets

The District reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For assets held and used, if the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the asset, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2016 and 2015.

9. Nonexchange Transactions

The recognition of assets and revenues resulting in nonexchange transactions of the District are as follows:

- a. Voluntary nonexchange transactions – The District receives various grants from federal and state agencies. Eligibility requirements have been met at the time the funds are received; therefore, the asset/revenue is recognized when it is received.

10. Advertising Cost

The District uses advertising to promote its services to the community. Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2016 and 2015 were \$2,260 and \$1,671, respectively.

NOTE B – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and investments was \$2,833,075 and the bank balance was \$2,855,309. Of the total bank balance, \$500,000 was covered by federal depository insurance, \$398,189 was invested in 100% federally guaranteed securities and the remaining balance of \$1,957,120 was considered uncollateralized. As of December 31, 2016, \$3,348,173 was pledged with securities held by the pledging banks' trust departments but not in the name of the District.

Kentucky Revised Statute 66.480 provides for investment of governmental funds into certain investment types including obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE C – RESTRICTED CASH

The sinking fund is restricted to the payment of principal and interest on long-term debt.

The depreciation fund is restricted to payment for improvements and approved repairs.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE D – CONTRIBUTIONS IN AID OF CONSTRUCTION

These revenue amounts were obtained from placement of meters at previously unsubscribed locations and from governmental grants.

NOTE E – LONG-TERM DEBT

The following bonds and loans were issued through USDA, Rural Development (RD):

<u>Original Amount</u>	<u>Funding Agency</u>	<u>Series Of</u>	<u>Interest Rate</u>	<u>Balance as of Dec. 31,</u>	
				<u>2016</u>	<u>2015</u>
\$1,350,000	RD	2005	4.125%	\$1,198,000	\$1,218,000
\$ 525,000	RD	2013A	2.125%	\$ 508,000	\$ 516,500
\$ 900,000	RD	2013B	2.000%	\$ 867,500	\$ 884,000

These bonds are secured by an exclusive pledge of a fixed portion of the income and revenues derived from the operation of the District's water distribution system and has principal and interest sinking fund requirements.

During 2002, the District had received approval for a Kentucky Infrastructure Authority (KIA) Project Loan not to exceed \$4,000,000. As of December 31, 2003, total draws of \$3,930,850 had been accumulated. This loan bears interest at a rate of 1.8% and is secured by the revenues of the water system. The balance outstanding on this loan as of year end was \$1,330,367. An annual deposit of \$49,000 is required to be deposited into a reserve account. The annual deposits are to be made until the balance reaches \$490,000. As of December 31, 2016 the reserve balance was \$1,082,643.

During 2005, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,350,000. This interim loan will convert to permanent financing through RD upon project completion. This loan bears interest at a variable rate and is secured by revenues of the water system. As of December 31, 2006, total draws of \$1,350,000 had been accumulated. The 2005 series bond was issued through RD in February 2007. Total amounts outstanding at year end were \$1,198,000.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE E – LONG-TERM DEBT (CONTINUED)

During 2009, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$380,000. This loan was received as part of a 2009C series revenue bond. This loan bears interest at an increasing rate with an average of 3.36% and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2016 the loan balance was \$180,000.

During 2012, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$3,680,000. This loan was received as part of a 2012D series revenue bond. This loan was issued to refund the District's series 1995, 1997, and 1999 Rural Development Bonds. This loan bears interest at a variable rate ranging between 2.75% and 4% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2016 the loan balance was \$3,185,000.

During 2012, the District received approval for an interim loan from Kentucky Rural Water Finance Corporation not to exceed \$1,425,000. This interim loan was converted to permanent financing through RD upon project completion. As of December 31, 2013 total draws of \$1,425,000 had been accumulated. The 2013A and 2013B series bonds were issued through RD. Total outstanding amounts at year end were \$1,375,500.

During 2013, the District received a loan from Kentucky Rural Water Finance Corporation in the amount of \$1,990,000. This loan was received as part of a 2013B series revenue bond. This loan was issued to refund the District's series 2001D and 2004B Kentucky Rural Water Loans. This loan bears interest at a variable rate ranging between 2.30% and 3.30% over the life of the bond and is secured by revenues of the water system. This loan also has principal and interest sinking fund requirements. As of December 31, 2016 the loan balance was \$1,535,000.

Current year long-term debt activity is as follows:

Description	Beginning Balance	Increases	Decreases	Ending Balance
Rural Development Bond, 2005	\$ 1,218,000	\$ 0	\$ 20,000	\$ 1,198,000
Rural Development Bond, 2013A & B	1,400,500	0	25,000	1,375,500
Kentucky Infrastructure Authority Loan	1,538,518	0	208,151	1,330,367
Kentucky Rural Water Loan	210,000	0	30,000	180,000
Kentucky Rural Water Loan	3,320,000	0	135,000	3,185,000
Kentucky Rural Water Loan	1,690,000	0	155,000	1,535,000
	<u>\$ 9,377,018</u>	<u>\$ 0</u>	<u>\$ 573,151</u>	<u>\$ 8,803,867</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE E – LONG-TERM DEBT (CONCLUDED)

Principal of various amounts are due at least annually in each of the years through 2052. The principal due for each of the next five years and thereafter is as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 588,415
2018	578,746
2019	589,648
2020	599,618
2021	620,662
2022-2026	2,082,778
2027-2031	1,472,500
2032-2036	985,000
2037-2041	481,500
2042-2046	498,000
2047-2051	255,500
2052	51,500
	<u>\$ 8,803,867</u>

Principal and interest requirements for the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 840,073
2018	817,078
2019	813,718
2020	809,231
2021	815,388
2022-2026	2,852,671
2027-2031	1,958,795
2032-2036	1,235,415
2037-2041	631,949
2042-2046	564,084
2047-2051	274,084
2052	52,028
	<u>\$11,664,514</u>

NOTE F – CONCENTRATION OF CREDIT RISK

The District extends credit to all citizens who live within the geographic location of the District and who utilize the utility system. Credit losses may be minimal and are generally within management's expectations.

GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE G – ACCOUNTS RECEIVABLE

Customer accounts receivable are shown net of an allowance for uncollectible accounts. At December 31, 2016 and 2015 total customer accounts receivable was \$359,754 and \$220,966, respectively. Allowance for uncollectible accounts was \$130,412 and \$119,177, respectively as of December 31, 2016 and 2015.

Customer accounts receivable amounts arise from monthly water usage. Based on District policy, water meters are read monthly, with billings occurring five to ten days subsequent to the reading. Once billed the customer has fourteen days to pay the amount due. If payment is made after the due date a late fee of 10% is assessed to water charges. A twenty-four hour grace period is allowed and if amounts remain unpaid, delinquent notices are sent out. Customers are given fourteen days from the date of the delinquent notice to render payment. The day following expiration of the delinquent period, collection trips are made for all bills in excess of forty dollars. If collection does not occur the meter is shut off. The customer will remain active for seven additional days, if at the expiration of the seven days payment has not been made, the account will become inactive and the customer deposit held will be applied to amounts owed. If collection is considered unlikely the balances are charged off as bad debt expense in the period in which they were deemed uncollectible.

Management's periodic evaluation of the adequacy of the allowance for uncollectible accounts is based on past loss experience, known and other risks inherent to the specific account, adverse situations that may affect the customer's ability to render payment and current economic conditions. Management considers many factors in determining whether a receivable is impaired, such as payment history and changes in employment.

NOTE H – CAPITAL ASSETS

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated				
Land and land rights	\$ 255,736	\$ 0	\$ 0	\$ 255,736
Construction in progress	19,116	0	0	19,116
Total capital assets not being depreciated	274,852	0	0	274,852
Other capital assets				
Utility plant and lines	29,731,097	140,955	0	29,872,052
Utility equipment and other	783,015	25,250	0	808,265
Total other capital assets at historical cost	30,514,112	166,205	0	30,680,317
Less: Accumulated depreciation	(11,125,353)	(834,325)	0	(11,959,678)
Capital assets, net	<u>\$ 19,663,611</u>	<u>\$ (668,120)</u>	<u>\$ 0</u>	<u>\$ 18,995,491</u>

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE I – RELATED PARTIES

The District contracts with Warren Rural Electric Cooperative Corporation (WRECC) for the following services: billing, collections, office rental, equipment rental, and staff related expenditures. The following related party amounts are reflected in the financial statements for December 31, 2016 and 2015.

	DECEMBER 31,	
	2016	2015
Amounts paid to WRECC for general operations	\$ 1,185,779	\$ 1,148,943
Amounts paid to WRECC for purchased power	18,862	19,688
Amounts included in accounts payable at year end	206,610	94,890
Amounts included in accounts receivable-WRECC at year end	139,298	44,542

The service agreement between WRECC and the District originated on August 16, 2004 and has a term of thirty years. Due to the variations in services rendered and actual costs at that date a minimal payment amount cannot be reasonably determined.

NOTE J – RISKS OF LOSS

The District's risk of loss are addressed by the purchase of commercial insurance. These areas include employee dishonesty bonds, property coverage, vehicle coverage, and a public entity liability policy which includes errors and omission. Coverage is reviewed for adequacy by management and agents on an annual basis.

NOTE K – NOTE RECEIVABLE – CITY OF LEITCHFIELD

During 2006, the District sold water lines and appurtenances to the Leitchfield Utilities Commission. The balance outstanding of \$35,826 is shown as a note receivable on the statement of net position. The note bears interest at a rate of 4.5% per annum and shall be paid to the District over a period of fifteen years in annual installments of \$8,139. The note will mature in July, 2021.

**GRAYSON COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2016 AND 2015**

NOTE L – SUBSEQUENT EVENTS

The District's management has evaluated and considered the need to recognize or disclose other subsequent events through March 23, 2017, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2016, have not been evaluated by management.

Management of WRECC informed the District in September 2016 that they had decided it was no longer in their best interest to continue the Management Agreement with the District. The formal separation took place as of January 1, 2017. All former WRECC employees that were designated to the District became District employees as of January 1, 2017. WRECC continues to rent office space, software, IT and contracts some employees to the District. The District is currently securing a new facility and new software to finalize the transition away from WRECC. The District expects to be totally independent of WRECC as of January 1, 2018.

A building project for a new office and warehouse is underway and a contract has been signed for new software. The office and warehouse facility will be a \$1.3 million project financed by Rural Development. The software conversion and purchase has an estimated cost of \$150,000.

Buckles, Travis & Hart, PLLC

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Grayson County Water District
Leitchfield, KY 42754

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Grayson County Water District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Grayson County Water District's basic financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Grayson County Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grayson County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grayson County Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

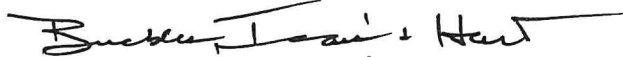
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Buckles, Travis & Hart, PLLC
Certified Public Accountants
Leitchfield, Kentucky
March 23, 2017

**GRAYSON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

SIGNIFICANT DEFICENCIES

Reference Number	Finding
NONE	